

QUARTERLY REPORT

LICENSEE: GREATER BAY HOTEL AND CASINO, INC.

FOR THE QUARTER ENDED JUNE 30, 2003

TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY



TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

LIST OF FORMS - QUARTERLY REPORT

FOR THE QUARTER ENDED JUNE 30, 2003

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TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
BALANCE SHEETS

AS OF JUNE 30, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE	DESCRIPTION	2003	2002
(a)	(b)	(c)	(d)
	ASSETS		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 17,554	\$ 17,295
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2003, \$8,833; 2002, \$13,002). *	4,663	6,514
4	Inventories.....	2,031	2,114
5	Prepaid Expenses and Other Current Assets..... Note 5.....	4,066	3,698
6	Total Current Assets.....	28,314	29,621
7	Investments, Advances, and Receivables.....	10,601	9,929
8	Property and Equipment - Gross..... Note 6.....	202,160	191,872
9	Less: Accumulated Depreciation and Amortization..... Note 6.....	(32,687)	(18,813)
10	Property and Equipment - Net..... Note 6.....	169,473	173,059
11	Other Assets.....	2,747	3,477
12	Total Assets.....	\$ 211,135	\$ 216,086
	LIABILITIES AND EQUITY		
	Current Liabilities:		
13	Accounts Payable.....	\$ 5,685	\$ 4,924
14	Notes Payable..... Note 9.....	9,500	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates..... Notes 9, 11...	-	-
16	Other..... Note 9.....	-	20
17	Income Taxes Payable and Accrued..... Note 2.....	-	-
18	Other Accrued Expenses..... Note 7.....	13,848	14,521
19	Other Current Liabilities..... Note 8.....	2,444	3,420
20	Total Current Liabilities.....	31,477	22,885
	Long-Term Debt:		
21	Due to Affiliates..... Notes 9, 11...	110,000	110,000
22	Other..... Note 9.....	-	342
23	Deferred Credits.....	-	-
24	Other Liabilities	3,586	3,128
25	Commitments and Contingencies		
26	Total Liabilities.....	145,063	136,355
27	Stockholders', Partners', Or Proprietor's Equity.....	66,072	79,731
28	Total Liabilities and Equity.....	\$ 211,135	\$ 216,086

The accompanying notes are an integral part of the financial statements.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	Revenue:		
1	Casino.....	\$ 93,286	\$ 107,524
2	Rooms.....	5,415	5,795
3	Food and Beverage.....	10,175	12,217
4	Other.....	1,963	1,978
5	Total Revenue.....	110,839	127,514
6	Less: Promotional Allowances.....	25,008	24,688
7	Net Revenue.....	85,831	102,826
	Costs and Expenses:		
8	Cost of Goods and Services.....	60,217	68,784
9	Selling, General, and Administrative.....	16,170	18,114
10	Provision for Doubtful Accounts.....	688	911
11	Total Costs and Expenses.....	77,075	87,809
12	Gross Operating Profit.....	8,756	15,017
13	Depreciation and Amortization.....	7,103	6,263
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	1,653	8,754
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates	(5,839)	(5,518)
18	Interest (Expense) - External.....	(119)	(164)
19	Investment Alternative Tax and Related Income (Expense) - Net....	(575)	(602)
20	Nonoperating Income (Expense) - Net.....	180	(991)
21	Total Other Income (Expenses).....	(6,353)	(7,275)
22	Income (Loss) Before Income Taxes And Extraordinary Items.....	(4,700)	1,479
23	Provision (Credit) for Income Taxes..... Note 2.....	343	632
24	Income (Loss) Before Extraordinary Items.....	(5,043)	847
	Extraordinary Items (Net of Income Taxes -		
25	2003, \$ - - ; 2002, \$ - -).....	-	-
26	Net Income (Loss).....	\$ (5,043)	\$ 847

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE	DESCRIPTION	2003	2002
(a)	(b)	(c)	(d)
	Revenue:		
1	Casino.....	\$ 49,647	\$ 51,854
2	Rooms.....	2,956	3,049
3	Food and Beverage.....	5,511	5,752
4	Other.....	1,080	1,050
5	Total Revenue.....	59,194	61,705
6	Less: Promotional Allowances.....	13,164	12,123
7	Net Revenue.....	46,030	49,582
	Costs And Expenses:		
8	Cost of Goods and Services.....	30,655	33,622
9	Selling, General, and Administrative.....	8,595	9,598
10	Provision for Doubtful Accounts.....	357	596
11	Total Costs and Expenses.....	39,607	43,816
12	Gross Operating Profit.....	6,423	5,766
13	Depreciation and Amortization.....	3,657	3,346
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	2,766	2,420
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	(2,905)	(2,872)
18	Interest (Expense) - External.....	(58)	(81)
19	Investment Alternative Tax and Related Income (Expense) - Net...	(289)	(275)
20	Nonoperating Income (Expense) - Net.....	91	(1,120)
21	Total Other Income (Expenses).....	(3,161)	(4,348)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(395)	(1,928)
23	Provision (Credit) for Income Taxes..... Note 2.....	184	(628)
24	Income (Loss) Before Extraordinary Items.....	(579)	(1,300)
25	Extraordinary Items (Net of Income Taxes - 2002, \$ - ; 2001, \$ -).....	-	-
26	Net Income (Loss).....	\$ (579)	\$ (1,300)

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2002 AND THE SIX MONTHS ENDED JUNE 30, 2003

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)		Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2001	100	\$ -		\$	89,659	\$	\$ (10,775)	\$ 78,884
2	Net Income (Loss) -							(7,769)	(7,769)
3	Contribution to Paid-in-Capital.....								
4	Dividends.....								
5	Prior Period Adjustments.....								
6	_____								
7	_____								
8	_____								
9	_____								
10	Balance, December 31, 2002.....	100	-			89,659		(18,544)	71,115
11	Net Income (Loss) - 2003.....							(5,043)	(5,043)
12	Contribution to Paid-in - Captial.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15	_____								
16	_____								
17	_____								
18	_____								
19	Balance, June 30, 2003.....	100	\$ -		\$	89,659	\$	\$ (23,587)	\$ 66,072

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

STATEMENTS OF CHANGES IN PARTNERS' OR PROPRIETOR'S EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2002
AND THE SIX MONTHS ENDED JUNE 30, 2003

(UNAUDITED)
(\$ IN THOUSANDS)

NOT APPLICABLE

LINE (a)	DESCRIPTION	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	NOT APPLICABLE	
				(e)	Total Equity (Deficit) (f)
1	Balance, December 31, _____	\$	\$	\$	\$
2	Net Income (Loss) - _____				
3	Capital Contributions.....				
4	Capital Withdrawals.....				
5	Partnership Distributions.....				
6	Prior Period Adjustments.....				
7	_____				
8	_____				
9	_____				
10	Balance, December 31, _____				
11	Net Income (Loss) - _____				
12	Capital Contributions.....				
13	Capital Withdrawals.....				
14	Partnership Distributions.....				
15	Prior Period Adjustments.....				
16	_____				
17	_____				
18	_____				
19	Balance, _____, _____	\$	\$	\$	\$

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF CASH FLOWS
 FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 3,392	\$ 8,722
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(6,576)	(9,696)
5	Proceeds from Disposition of Property and Equipment	2	52
6	Purchase of Casino Reinvestment Obligations.....	(1,098)	(1,281)
7	Purchase of Other Investments and Loans/Advances made.....	-	-
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....	-	-
9	Cash Outflows to Acquire Business Entities (net of cash acquired).	-	-
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(7,672)	(10,925)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	3,000	-
14	Payments to Settle Short-Term Debt.....	-	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	-	-
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	-	(9)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....	-	-
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	3,000	(9)
24	Net Increase (Decrease) In Cash And Cash Equivalents.....	(1,280)	(2,212)
25	Cash And Cash Equivalents At Beginning Of Period.....	18,834	19,507
26	Cash And Cash Equivalents At End Of Period.....	\$ 17,554	\$ 17,295

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 5,959	\$ 6,068
28	Income Taxes.....	\$ 376	\$ 1,000

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ (5,043)	\$ 847
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment....	6,724	5,887
31	Amortization of Other Assets.....	379	375
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....		318
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	3	1,230
36	(Gain) Loss on Casino Reinvestment Obligations.....	575	603
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	338	2,382
39	Net (Increase) Decrease in Inventories.....	(180)	317
40	Net (Increase) Decrease in Other Current Asset	358	(948)
41	Net (Increase) Decrease in Other Assets.....	(9)	24
42	Net Increase (Decrease) in Accounts Payable.....	87	(1,919)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(24)	(501)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	184	107
45			
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 3,392	\$ 8,722

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 6,576	\$ 9,696
49	Less: Capital Lease Obligations Incurred.....	-	-
50	Cash Outflows For Property And Equipment.....	\$ 6,576	\$ 9,696
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
53	Net Assets Acquired Other than Cash, Goodwill, and Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows To Acquire Business Entities.....	\$ -	\$ -
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$ -	\$ -
58	Less: Issuances to Settle Long-Term Debt.....	-	-
59	Consideration in Acquisition of Business Entities.....	-	-
60	Cash Proceeds From Issuing Stock Or Capital Contributions.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
**SCHEDULE OF PROMOTIONAL
EXPENSES AND ALLOWANCES**

(\$ IN THOUSANDS)

FOR THE SIX MONTHS ENDED JUNE 30, 2003

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	154,315	\$ 4,098		\$
2	Food	230,099	3,623		
3	Beverage	1,213,449	2,236		
4	Travel			1,342	305
5	Bus Program Cash	347,893	5,985		
6	Other Cash Complimentaries	153,967	8,615		
7	Entertainment	5,947	265		
8	Retail & Non-Cash Gifts			290,407	1,915
9	Parking			146,283	219
10	Other	29,912	186		
11	Total	2,135,582	\$ 25,008	438,032	\$ 2,439

FOR THE THREE MONTHS ENDED JUNE 30, 2003

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	77,636	\$ 2,092		\$
2	Food	124,243	1,971		
3	Beverage	661,338	1,186		
4	Travel			438	157
5	Bus Program Cash	199,080	3,138		
6	Other Cash Complimentaries	81,506	4,547		
7	Entertainment	2,907	128		
8	Retail & Non-Cash Gifts			176,273	1,091
9	Parking			68,788	103
10	Other	12,802	102		
11	Total	1,159,512	\$ 13,164	245,499	\$ 1,351

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) Organization, Business and Basis of Presentation

The condensed consolidated financial statements include the accounts of Greate Bay Hotel and Casino and subsidiaries ("Sands" or the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation. In management's opinion, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the position as of June 30, 2003 and the results of operations for the three and six months ended June 30, 2003 and 2002 have been made. The results set forth in the income statement for the three and six months ended June 30, 2003 are not necessarily indicative of the results to be expected for the full year.

The financial statements were prepared following the requirements of the Casino Control Commission (CCC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP (accounting principles generally accepted in the United States of America) can be condensed or omitted.

(2) Income Taxes

The components of the provision for income taxes are as follows:

	Six Months Ending June 30,	
	2003	2002
Federal income tax provision:		
Current	\$ -	\$ 632,000
Deferred	-	-
State income tax provision:		
Current	343,000	-
Deferred	-	-
	<u>\$ 343,000</u>	<u>\$ 632,000</u>

Federal and State income tax benefits or provisions are based upon the results of operations for the current period and the estimated adjustments for income tax purposes of certain nondeductible expenses.

Due to recurring losses, the Company has not recorded a Federal income tax benefit for the six months ended June 30, 2003. Management is unable to determine that realization of the Company's deferred tax assets are more likely than not, and, thus has provided a valuation allowance for the entire amount.

The State income tax provision of \$343,000 for the six months ended June 30, 2003 is a result of applying the statutory Alternative Minimum Assessment rate of 0.4% to gross receipts, as defined in the Business Tax Reform Act.

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO FINANCIAL STATEMENTS (Continued) **(Unaudited)**

(3) Transactions with Related Parties

The Company's rights to the trade name "Sands" (the "Trade Name") were derived from a license agreement between Greate Bay Casino Corporation and an unaffiliated third party. Amounts payable by GBHC for these rights were equal to the amounts paid to the unaffiliated third party. GBHC was assigned by High River Limited Partnership ("High River") the rights under a certain agreement with the owner of the Trade Name to use the Trade Name as of September 29, 2000 through May 19, 2086 subject to termination rights for a fee after a certain minimum term. High River is an entity controlled by Carl C. Icahn. High River received no payments for its assignment of these rights. Payment is made directly to the owner of the Trade Name. Such charges amounted to \$130,000 and \$144,000, respectively, for the six months ended June 30, 2003 and 2002.

The Stratosphere Casino Hotel & Tower (the "Stratosphere"), an entity controlled by Carl C. Icahn, allocates a portion of certain executive salaries, including Richard P. Brown, as well as other charges for tax preparation, legal fees, travel and entertainment to GBHC. Charges incurred from the Stratosphere for the six months ended June 30, 2003 were \$108,000. There were no similar charges for the six months ended June 30, 2002.

On February 28, 2003, GBHC entered into a two year agreement with XO New Jersey, Inc. a long-distance phone carrier controlled by Carl C. Icahn. The agreement can be extended beyond the minimum two year term on a month-to-month basis. Charges incurred for the six months ended June 30, 2000 were \$26,000.

(4) Legal Proceedings

Tax appeals on behalf of the Company and the City of Atlantic City challenging the amount of the Company's real property assessments for tax years 1996 through 2003 are pending before the NJ Tax Court.

The Company discovered certain failures relating to currency transaction reporting and self-reported the situation to the applicable regulatory agencies. The Company conducted an internal examination of the matter and the New Jersey Division of Gaming Enforcement conducted a separate review. The Company has revised internal control processes and taken other measures to address the situation. The Company was advised by the Department of the Treasury that it will not pursue a civil penalty.

The Company is a party in various legal proceedings with respect to the conduct of casino and hotel operations and has received employment related claims. Although a possible range of losses cannot be estimated, in the opinion of management, based upon the advice of counsel, the Company does not expect settlement or resolution of these proceedings or claims to have a material adverse impact upon the consolidated financial position or results of operations of the Company, but the outcome of litigation and the resolution of claims is subject to uncertainties and no assurances can be given. The accompanying

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO FINANCIAL STATEMENTS (Continued) (Unaudited)

condensed consolidated financial statements do not include any adjustments that might result from these uncertainties.

On February 26, 2003, the Company received a letter from counsel for Mr. Frederick H. Kraus, Executive Vice President, General Counsel and Secretary, indicating that he had been retained to represent Mr. Kraus "in regards to a constructive discharge, breach of contract, severance pay" and other claims. This matter has been amicably resolved.

(5) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	June 30,	
	2003	2002
Prepaid Federal Income Taxes	\$ 1,359,000	\$ 1,359,000
Prepaid slot license fee	1,151,000	1,031,000
Other current assets	1,556,000	1,308,000
	<u>\$ 4,066,000</u>	<u>\$ 3,698,000</u>

(6) Property and Equipment

Property and equipment consisted of the following:

	June 30,	
	2003	2002
Land	\$ 54,343,000	\$ 54,814,000
Buildings and improvements	92,132,000	90,561,000
Operating equipment	49,925,000	34,460,000
Construction in progress	5,760,000	12,037,000
	<u>202,160,000</u>	<u>191,872,000</u>
Less: accumulated depreciation and amortization	<u>(32,687,000)</u>	<u>(18,813,000)</u>
Net property and equipment	<u>\$ 169,473,000</u>	<u>\$ 173,059,000</u>

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
(Unaudited)

(7) Other Accrued Expenses

Other accrued expenses consisted of the following:

	June 30,	
	2003	2002
Accrued vacation	\$ 1,575,000	\$ 1,359,000
Accrued interest	3,092,000	3,092,000
Other accrued expenses	9,181,000	10,070,000
	<u>\$ 13,848,000</u>	<u>\$ 14,521,000</u>

(8) Other Current Liabilities

Other current liabilities consisted of the following:

	June 30,	
	2003	2002
Unredeemed gaming chips	\$ 460,000	\$ 511,000
CRDA bonds payable	597,000	622,000
Other current liabilities	1,387,000	2,287,000
	<u>\$ 2,444,000</u>	<u>\$ 3,420,000</u>

(9) Long-Term Debt

Long-term debt is comprised of the following:

	June 30,	
	2003	2002
Due to GB Property Funding	\$ 110,000,000	\$ 110,000,000
Due to Holdings	9,500,000	-
Other	-	362,000
	<u>119,500,000</u>	<u>110,362,000</u>
Total indebtedness	119,500,000	110,362,000
Less - current maturities	<u>(9,500,000)</u>	<u>(20,000)</u>
Total long-term debt	<u>\$ 110,000,000</u>	<u>\$ 110,342,000</u>

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO FINANCIAL STATEMENTS (Continued) **(Unaudited)**

(10) New Accounting Pronouncement

On January 1, 2003, the Company adopted FAS No. 143, "Asset Retirement Obligations" ("SFAS No. 143"), which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The adoption of FAS No. 143 did not have a material impact on the Company's financial statements.

(11) Subsequent Event

On July 14, 2003, a Form 8-K was filed with the Securities and Exchange Commission reporting that a committee of the independent directors of GB Holdings, Inc. ("Holdings") approved a proposed restructuring of the Company's \$110 million notes due September 29, 2005 that bear interest at 11% ("Existing Notes") together with various other corporate changes to be accomplished in connection with the proposed restructuring and issued a press release describing the restructuring and other aspects of the proposed transaction. The proposed transaction would involve the following:

- The amendment of the Existing Indenture to remove certain provisions and covenants and the release of the lien on the Company's assets which is the collateral for the Existing Notes, thereby allowing the transfer of the Company's assets to a newly formed wholly-owned indirect subsidiary of the Company ("Licensee") free and clear of all liens and all obligations under the Existing Indenture. Licensee will guarantee the obligations of a new subsidiary of Holdings formed to own Licensee ("Newco") under a new indenture.
- The solicitation of the exchange (the "Notes Exchange") of the Existing Notes, dollar for dollar, for up to \$110 million of notes (the "New Notes") due September 2008 (the "New Maturity Date") which will bear interest at 3% per annum, payable at maturity. The New Notes will be secured by a first lien on the assets of Newco and Licensee. Newco will undertake to provide the funds to Holdings to meet scheduled interest payments on the Existing Notes through their scheduled maturity.
- The payment of \$100 by Holdings to the holders of the Existing Notes for each \$1,000 in principal amount exchanged together with all interest accrued on such Existing Notes through the date of such exchange.
- The distribution to Holdings' common stockholders of warrants exercisable (following the occurrence of certain events) for 27.5% of the common stock of Newco (on a fully diluted basis) (the "Newco Warrants").
- The holders of a majority of the principal amount of the New Notes have the option at any time prior to the New Maturity Date to cause the entire class of New Notes to simultaneously convert into shares of Newco Stock. Shares of Newco Stock issued upon such conversion of the New Notes will represent 72.5% of the Newco Stock if all of the

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO FINANCIAL STATEMENTS (Continued) (Unaudited)

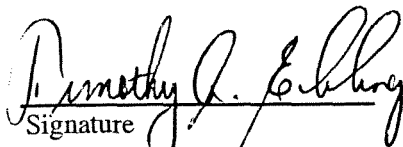
Existing Notes participate in the Note Exchange. If less than all of the Existing Notes participate in the Note Exchange, then in the event of a conversion of the New Notes into shares of Newco Stock, such shares would be equal on a fully diluted basis, after giving effect to the exercise of the Newco Warrants and the conversion of the New Notes, the product of (a) 72.5% and (b) a fraction, the numerator of which is the principal amount of the New Notes and the denominator of which is the total principal amount of the Existing Notes immediately prior to the Exchange Offer.

- At the election of the holders of a majority of the principal amount of the New Notes, the holders of the New Notes may be given the ability to convert the New Notes at their option.
- If all the Existing Notes do not participate in the Note Exchange, the proposed transaction will result in Holdings owning shares of Newco Stock which would represent on a fully diluted basis (after giving effect to the exercise of the Newco Warrants and the conversion of the New Notes) a percentage of the Newco Stock equal to the product of (a) 72.5% and (b) a fraction, the numerator of which is the principal amount of the Existing Notes that are not exchanged for New Notes and the denominator of which is the total principal amount of the Existing Notes immediately prior to the Exchange Offer.

This proposed transaction is subject to the consent of the holders of a majority of the Existing Notes, the exchange of a majority in principal amount of the Existing Notes, the approval of stockholders owning a majority of the common stock of Holdings, the effectiveness of all required filing under applicable securities law, and the receipt of all required governmental and third party approvals.

STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature
Timothy A. Ebling
Executive Vice President,
Chief Financial Officer

Title

003052-11

License Number

On Behalf Of:

Greate Bay Hotel And Casino, Inc.

Casino Licensee